Arkansas Teacher Retirement System

Form # 101
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TAX NOTICE REGARDING ROLLOVER ELIGIBILITY OF ARKANSAS TEACHER RETIREMENT (ATRS) DISTRIBUTIONS

This notice contains important information you will need before deciding how to receive your refund or other lump sum distribution from ATRS. ATRS is a government-sponsored, defined benefit plan governed by IRS Code § 401(a). When you receive a refund or other lump sum payment from ATRS, you have 2 options regarding this distribution: 1) you may elect to have ATRS pay the distribution directly to you in a lump sum, or 2) you may roll it into another eligible retirement plan. The taxable portion of your refund or other distribution (amount of employee pre-tax contributions plus interest earned) is rollover eligible.

If You Elect to "Rollover" the Eligible Portion of Your Distribution

A rollover occurs when you withdraw cash or other assets from one eligible retirement plan, i.e. ATRS, and contribute all or part of it **within 60 days** to another eligible retirement plan. If you elect to roll over the taxable portion of your distribution, ATRS will transfer the payment directly to the eligible plan. The minimum rollover amount is $200. The rollover transaction is not taxable, but it is reported to the IRS. The taxable portion rolled over will be taxed later when you take it out of the IRA or other plan. ATRS will distinguish between the "before-tax" and "after-tax" contributions when issuing the distribution.

Examples of accounts that qualify to receive rollover deposits include § 401(a) Qualified Retirement Plans; § 408(a) Individual Retirement Accounts; § 401(k) Profit Sharing Plans & Stock Bonus Plans; § 408(b) IRA Annuities; § 403(b) Tax Sheltered Annuities; and § 457 Deferred Compensation Plans. No income tax will be withheld on the amount rolled over. Your taxable portion will be taxed when you withdraw it from the IRA or other plan that received the rollover.

You may not roll over:
· The non-taxable part of a distribution such as any after-tax employee contributions;
· A distribution that is part of a series of payments such as a retirement or disability annuity;
· A required minimum distribution; or
· A hardship distribution.

If you elect to have the distribution paid to you as outlined below, you may still roll over the taxable portion within 60 days after receiving the payment from ATRS. Any taxable distribution paid directly to you is subject to mandatory tax withholding, even if you intend to roll it over later. If you do roll it over after it is paid to you and want to defer tax on the entire taxable portion, you will have to add funds from other sources to equal the amount withheld by ATRS and remitted to the IRS.

If You Elect to Have the Distribution "Paid to You"

Any part of your distribution that is a pre-tax contribution paid to you will be taxed in the current year if it is not rolled over. If you elect to have the distribution paid to you, you will receive only 80% of the taxable portion because ATRS is required to withhold 20% of the distribution and send it to the IRS as income tax withholding to be credited against your taxes. ATRS is also required to withhold an additional 5% for Arkansas state withholding to be credited against your state income tax if you are an Arkansas resident. (If you are not an Arkansas resident, you may fill out an affidavit of exemption and ATRS may withhold only the Federal withholding tax.) For questions about Arkansas state income taxes and residency requirements, contact the Arkansas Department of Finance & Administration, Income Tax Section at 501-682-7225 or visit their website at www.arkansas.gov/dfa/. ATRS will report any distributions to the IRS on an IRS Form 1099.

a. Special Tax Rules for Distributions "Paid to You"

Special tax rules apply to distributions from qualified plans. If you receive the distribution prior to reaching the age of 59½, an additional 10% tax penalty is imposed by the IRS. See **IRS FORM 5329** for more information on the 10% tax penalty.

There are options available for reducing the taxes you pay on your ATRS distribution such as lump sum distribution averaging. Averaging is a one-time election that allows you to figure the tax you owe by using five year averaging, distributing the income as if you were paid over 5 years.

If you were born prior to January 1, 1936, and receive a lump sum distribution, you may be eligible for a one-time election using "ten year averaging." Ten year averaging is done using 1986 tax rates instead of 5 year averaging that uses current tax rates.

If you were born prior to January 1, 1936, and made contributions prior to 1974, the portion of the distribution attributable to the pre-1974 contributions may be eligible for taxation at the long-term capital gains rate.

b. Special Tax Rules for Distributions "Paid to You" (Continued)

There are limits on the special treatment of lump sum distributions. You can generally only elect this special tax treatment once in your lifetime, and the election applies to all lump sum distributions you receive in that same year. If you have previously rolled over a payment from ATRS, you may not use this special tax treatment for later payments from ATRS. Moreover, if you roll over a portion of your payment from ATRS, this special tax treatment is not available for the rest of the payment. See **IRS Form 4972** for more information on lump sum

Surviving Spouse and Other Beneficiaries

In general, the rules summarized above apply to payments to ATRS members will also apply to the surviving spouses of ATRS members. However, a few exceptions regarding distributions to surviving spouses and other beneficiaries should be mentioned.

- Non-spouse beneficiaries are not eligible to roll over a distribution or other payment from ATRS.
- If you are a surviving spouse, your payment is not subject to the additional tax penalty if you are less than age 59 ½.
- If you are a surviving spouse, you may choose to have your distribution rolled over into another eligible plan in the same manner as the participating ATRS member.
- Surviving spouses and other beneficiaries may be able to use the special tax treatment for lump sum distributions.

How To Obtain Additional Information

This notice summarizes certain federal (not state or local) tax rules that might apply to your refund. The rules described in this notice are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you should consult with a professional tax advisor before you receive a distribution from ATRS. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in **IRS Publication 575, Pension and Annuity Income**, **IRS Publication 590, Individual Retirement Arrangements**, and **IRS Form 4972, Tax on Lump Sum Distributions**. These publications are available online at www.irs.gov or from your local IRS office. You may also request forms and publications from the IRS by calling **1-800-TAX-FORM**.